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October 30, 2000

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AMEP-Z.73796

SENT VIA FEDERAL EXPRESS

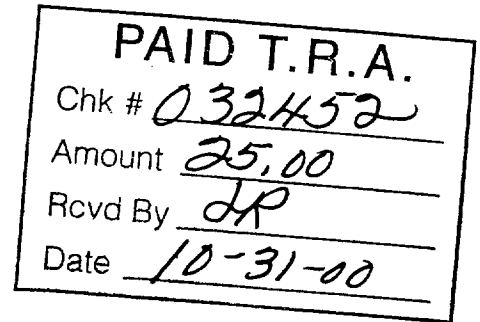
Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Re: **AMERICAN ELECTRIC POWER
\$400,000,000 APPLICATION FOR FINANCING
FOR YEAR 2001**

Dear Mr. Waddell:

In connection with this matter, please find enclosed one original and thirteen conformed copies of the above referenced application including Exhibits A, B, C and D and Verification. Also, please find our check in the amount of \$25.00 for filing same. We have enclosed an additional copy which we would appreciate your returning when it has been time-stamped as received by your office. We have enclosed a self-addressed stamped envelope for this purpose.

With regard to setting your agenda for the conference to consider the Application, if at all possible, I would appreciate your setting this meeting after November 27th as I will be out of the office until that date. If you should have any questions regarding the Application during that time, please contact Cynthia Kessler at (423) 378-8812.



Mr. David Waddell
Page 2
October 30, 2000

With kindest personal regards, we are

Very sincerely yours,

HUNTER, SMITH & DAVIS, LLP



T. Arthur Scott, Jr.

g:\wordp\wpdocs\scott\alphabusiness client\kpow\ltr.d.waddell.\$400M financing2001

Enclosures

cc: Mr. R. Daniel Carson, Jr. (w/o encl.)
Thomas G. Berkemeyer, Esq. (w/o encl.)
William E. Johnson, Esq. (w/ encl.)
Mr. Isaac Webb (w/o encl.)
Vince Williams, Esq. (w/encl.)
Mr. Barry Thomas (w/o encl.)

Before the

TENNESSEE REGULATORY AUTHORITY

In the Matter of the:

APPLICATION :

of :

APPALACHIAN POWER COMPANY :

DOCKET No. 00-00985

TO THE HONORABLE TENNESSEE REGULATORY AUTHORITY:

1. Your petitioner, Appalachian Power Company ("Appalachian"), respectfully shows that:

(a) It is a corporation duly organized and existing under the laws of the Commonwealth of Virginia, having its principal office in said Commonwealth in the City of Roanoke, and is properly qualified to transact business in the State of Tennessee.

(b) A true copy of its Restated Articles of Incorporation was filed with your Honorable Authority in Docket No. U-6533.

(c) Appalachian maintains its principal office in the State of Tennessee in the City of Kingsport, Sullivan County.

2. With the consent and approval of the Virginia State Corporation Commission and the further consent and approval of your Honorable Authority, Appalachian proposes to issue and sell, from time to time through December 31, 2001, secured or unsecured promissory notes ("Notes") in the aggregate principal amount of up to \$400,000,000. The Notes may be issued in the form of either First Mortgage Bonds, Senior or Subordinated Debentures (including Junior Subordinated Debentures) or other unsecured promissory notes.

The Notes will mature in not less than one year and not more than 50 years. The interest rate of the Notes may be fixed or variable and will be sold by (i) competitive bidding, (ii) through negotiation with underwriters or agents, or (iii) by direct placement with a commercial bank or other institutional investor. Any fixed rate Note will be sold by Appalachian at a yield to maturity which shall not exceed by more than 300 basis points the yield to maturity on United States Treasury obligations of comparable maturity at the time of pricing. The initial interest rate on any variable rate Note will not exceed 10% per annum. Appalachian will agree to specific redemption provisions, if any, including redemption premiums, at the time of the pricing. If it is deemed advisable, the Notes may be provided some form of credit enhancement, including but not limited to a letter of credit, bond insurance, standby purchase agreement or surety bond.

In connection with the sale of unsecured Notes, Appalachian may agree to restrictive covenants which would prohibit it from, among other things: (i) creating or permitting to exist any liens on its property, with certain stated exceptions; (ii) creating indebtedness except as specified therein; (iii) failing to maintain a specified financial condition; (iv) entering into certain mergers, consolidations and dispositions of assets; and (v) permitting certain events to occur in connection with pension plans. In addition, Appalachian may permit the holder of the Notes to require Appalachian to prepay them after certain specified events, including an ownership change.

Appalachian may have the right to defer payment of interest on the Junior Subordinated Debentures for up to five years. However, Appalachian may not declare and pay dividends on its outstanding stock if payments under the Junior Subordinated Debentures are deferred. The payment of principal, premium and interest on Junior Subordinated Debentures will be subordinated in right of payment to the prior payment in full of senior indebtedness.

The First Mortgage Bonds will be issued under and secured by the Mortgage and Deed of Trust, dated as of December 1, 1940, made by Appalachian to Bankers Trust Company and R. Gregory Page, as Trustees, as previously supplemented and amended (on file in Docket Nos. 2460, 2855, U-3044, U-3178, U-3321, U-3468, U-3973, U-4163, U-4524, U-5069, U-5255, U-5319, U-5394, U-5547, U-5646, U-5732, U-5800, U-5893, U-6134, U-6139, U-6266, U-6321, U-6360, U-6533, U-6761, U-6791, U-6885, U-6984, U-82-7153, U-83-7257, U-86-7481, U-87-7519, 89-11869, 91-05060, 91-08689, 92-13376, 93-01795, 93-06777, 94-00634, 95-03239, 96-01247, 97-07499 and 98-00753), and as to be further supplemented and amended by one or more Supplemental Indentures. A copy of the most recent Supplemental Indenture for First Mortgage Bonds utilized by Appalachian is attached as Exhibit A. It is proposed that a similar form of Supplemental Indenture be used for one or more series of the First Mortgage Bonds (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

The Junior Subordinated Debentures will be issued under an Indenture, dated as of September 1, 1996, (on file in Docket No. 98-00753), as previously supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures. A copy of the most recent Supplemental Indenture for Junior Subordinated Debentures utilized by Appalachian is attached as Exhibit B. It is proposed that a similar form of Supplemental Indenture be used for one or more series of the Junior Subordinated Debentures (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

The unsecured Notes (other than Junior Subordinated Debentures) will be issued under an Indenture dated as of January 1, 1998, (on file in Docket No. 98-00753), as previously supplemented and amended, and as to be further supplemented and amended by one or more Supplemental Indentures or Company Orders. A copy of the most recent Company Order utilized

by Appalachian is attached hereto as Exhibit C. It is proposed that a similar form of Company Order or a Supplemental Indenture be used for one or more series of the unsecured Notes other than Junior Subordinated Debentures (except for provisions such as interest rate, maturity, redemption terms and certain administrative matters).

3. Appalachian may enter into, from time to time through December 31, 2001, one or more interest rate hedging arrangements, including, but not limited to, a treasury lock agreement, treasury put option or interest rate collar agreement ("Treasury Hedge Agreement") to protect against future interest rate movements in connection with the issuance of the Notes. Each Treasury Hedge Agreement will correspond to one or more Notes that Appalachian will issue pursuant to this Application, accordingly, the aggregate corresponding principal amounts of all Treasury Hedge Agreements cannot exceed \$400,000,000. The term of any Treasury Hedge Agreement may not exceed 90 days.

* * *

4. Any proceeds realized from the sale of the Notes, together with any other funds which may become available to Appalachian, will be used to redeem directly or indirectly long-term debt, to refund directly or indirectly preferred stock, to repay short-term debt at or prior to maturity, to reimburse Appalachian's treasury for expenditures incurred in connection with its construction program and for other corporate purposes. Appalachian's First Mortgage Bonds, 7.80% Series due 2023 (\$30,237,000 principal amount outstanding) may be redeemed at a regular redemption price of 105.07% (104.68% at May 1, 2001) of the principal amount thereof; the First Mortgage Bonds, 7.38% Series due 2002 (\$50,000,000 principal amount outstanding) may be redeemed at a regular redemption price of 100.00% of the principal amount thereof; the First Mortgage Bonds, 7.15% Series due 2023 (\$20,000,000 principal amount outstanding) may be redeemed at a regular

redemption price of 104.65% (104.29% at November 1, 2001) of the principal amount thereof; the First Mortgage Bonds, 6.85% Series due 2003 (\$30,000,000 principal amount outstanding) may be redeemed at a regular redemption price of 100.00% of the principal amount thereof; the First Mortgage Bonds, 6.65% Series due 2003 (\$40,000,000 principal amount outstanding) may be redeemed at a regular redemption price of 100.00% of the principal amount thereof; the First Mortgage Bonds, 6.00% Series due 2003 (\$30,000,000 principal amount outstanding) may be redeemed at a regular redemption price of 100.00% of the principal amount thereof; the First Mortgage Bonds, 6.80% Series due 2006 (\$100,000,000 principal amount outstanding) may be redeemed at a regular redemption price of 100.00% of the principal amount thereof; and 8.25% Junior Subordinated Debentures due 2026 (\$75,000,000 principal amount outstanding) may be redeemed at a regular redemption price of 100.00% of the principal amount thereof. The redemptions will occur if Appalachian considers that the payment of the premiums of 5.07% and 4.65%, respectively, is prudent in light of the substantial amounts of interest expense that could be saved by early redemption of one or all of these series. In addition, Appalachian estimates that approximately \$377,273,000 (exclusive of allowance for funds used during construction) will be expended in 2001 in connection with its construction program.

Appalachian may purchase the series of first mortgage bonds and junior subordinated debentures referred to herein or any other series of indebtedness or any series of preferred stock through tender offer, negotiated, open market or other form of purchase or otherwise in addition to redemption, if they can be refunded at a lower effective cost.

The tender offers will occur if Appalachian considers that the payment of the necessary premium is prudent in light of the substantial amounts of interest expense that could be saved by early redemption of any of these series.

5. Balance Sheets and Statements of Income and Retained Earnings for the twelve months ended June 30, 2000 are attached hereto as Exhibit D.

6. The proposed issuance, sale and delivery of the Notes will be effected in accordance with law and in compliance with all applicable indenture, charter and other standards relating to debt and equity securities and capitalization ratios of Appalachian.

7. No franchise or right is to be capitalized directly or indirectly by Appalachian except as may be authorized by your Authority.

WHEREFORE, your Petitioner respectfully prays that your Honorable Authority enter an order (1) consenting to and approving the issuance, sale and delivery by Appalachian of up to \$400,000,000 aggregate principal amount of First Mortgage Bonds as in this Application proposed, to be secured by its Mortgage and Deed of Trust, dated as of December 1, 1940, as amended and supplemented and as to be further amended and supplemented by one or more new Supplemental Indentures in substantially the form filed as an exhibit hereto or similar documentation; and in the alternative, the issuance and sale by Appalachian of up to \$400,000,000 principal amount of Senior or Subordinated Debentures (including Junior Subordinated Debentures) or other unsecured promissory notes pursuant to their respective Indentures and company orders in substantially the form filed as exhibits hereto or similar documentation; and (2) granting to your Petitioner such other, further or general relief as, in the judgment of your Honorable Authority, your Petitioner may be entitled to have upon the facts hereinabove set forth.

APPALACHIAN POWER COMPANY

By /s/ A. A. Pena
Vice President

Dated: October 30, 2000

Attorneys for Applicant:

/s/ T. A. Scott, Jr.
T. Arthur Scott, Jr., Esq.
Hunter, Smith & Davis
P.O. Box 3740
Kingsport, TN 37664

/s/ Thomas G. Berkemeyer
Thomas G. Berkemeyer, Esq.
American Electric Power Service Corporation
P.O. Box 16631
Columbus, OH 43216-6631

STATE OF OHIO)
) ss:
COUNTY OF FRANKLIN)

Before me, Mary M. Soltesz, a Notary Public in and for the State and County aforesaid, this 30th day of October, 2000, personally appeared A. A. Pena, to me known to be the person whose name is signed to the foregoing Application, and after being first duly sworn made oath and said that he is a Vice President of Appalachian Power Company, that he has read the Application and know the contents thereof, that the allegations therein are true and correct to the best of his knowledge, information and belief, and that he is duly authorized to make, verify and file the Application for Appalachian Power Company.

Subscribed and sworn to before me this 30th day of October, 2000.

/s/ Mary M. Soltesz
Notary Public
My Commission expires 7-13-04

EXECUTED IN 120 COUNTERPARTS OF
WHICH THIS IS COUNTERPART NO. 120

Indenture Supplemental

TO

Mortgage and Deed of Trust
(Dated as of December 1, 1940)

Executed by

APPALACHIAN POWER COMPANY
formerly Appalachian Electric Power Company

TO

BANKERS TRUST COMPANY,
As Trustee

Dated as of May 1, 1997

\$48,000,000 First Mortgage Bonds,
Designated Secured Medium Term Notes,
6.71% Series due June 1, 2000

TABLE OF CONTENTS*

	<u>PAGE</u>
PARTIES	1
RECITALS	
Execution of Mortgage.	1
Execution of supplemental indentures	1
Termination of Individual Trustee.	1
Provision for issuance of bonds in one or more series.	2
Right to execute supplemental indenture.	2
First Mortgage Bonds heretofore issued	2
Issue of new First Mortgage Bonds of the 62nd Series	3
Second 1997 Supplemental Indenture	3
Compliance with legal requirements	3
GRANTING CLAUSES.	3
DESCRIPTION OF PROPERTY	4
APPURTENANCES, ETC.	4
HABENDUM.	5
PRIOR LEASEHOLD ENCUMBRANCES.	5
GRANT IN TRUST.	6
SECTION 1. Supplement to Original Indenture by adding Section 20III.	7
SECTION 2. Initial Issuance of the Bonds of the 62nd Series.	10
SECTION 3. Provision for record date for meetings of Bondholders	10
SECTION 4. Original Indenture and Second 1997 Supplemental Indenture same instrument.	10

*The Table of Contents shall not be deemed to be any part of the Indenture Supplemental to Mortgage and Deed of Trust.

	<u>PAGE</u>
SECTION 5. Limitation of rights.	10
SECTION 6. Execution in counterparts	10
TESTIMONIUM	11
SIGNATURES AND SEALS.	11
ACKNOWLEDGMENTS	13
SCHEDULE I.	I-1

SUPPLEMENTAL INDENTURE, dated as of the first day of May in the year One Thousand Nine Hundred and Ninety-seven, made and entered into by and between APPALACHIAN POWER COMPANY, a corporation of the Commonwealth of Virginia, the corporate title of which was, prior to April 17, 1958, APPALACHIAN ELECTRIC POWER COMPANY (hereinafter sometimes called the "Company"), a transmitting utility (as such term is defined in Section 46-9-105(1)(n) of the West Virginia Code), party of the first part, and BANKERS TRUST COMPANY, a corporation of the State of New York (hereinafter sometimes called the "Corporate Trustee" or "Trustee"), as Trustee, party of the second part.

WHEREAS, the Company has heretofore executed and delivered its Mortgage and Deed of Trust (hereinafter sometimes referred to as the "Mortgage"), dated as of December 1, 1940, to the Trustee for the security of all bonds of the Company outstanding thereunder, and by said Mortgage conveyed to the Trustee, upon certain trusts, terms and conditions, and with and subject to certain provisos and covenants therein contained, all and singular the property, rights and franchises which the Company then owned or should thereafter acquire, excepting any property expressly excepted by the terms of the Mortgage; and

WHEREAS, the Company has heretofore executed and delivered to the Trustee supplements and indentures supplemental to the Mortgage, dated as of December 1, 1943, December 2, 1946, December 1, 1947, March 1, 1950, June 1, 1951, October 1, 1952, December 1, 1953, March 1, 1957, May 1, 1958, October 2, 1961, April 1, 1962, June 1, 1965, September 2, 1968, December 1, 1968, October 1, 1969, June 1, 1970, October 1, 1970, September 1, 1971, February 1, 1972, December 1, 1972, July 1, 1973, March 1, 1974, April 1, 1975, May 1, 1975, December 1, 1975, April 1, 1976, September 1, 1976, November 1, 1977, May 1, 1979, August 1, 1979, February 1, 1980, November 1, 1980, April 1, 1982, October 1, 1983, February 1, 1987, September 1, 1987, November 1, 1989, December 1, 1990, August 1, 1991, February 1, 1992, May 1, 1992, August 1, 1992, November 15, 1992, April 15, 1993, May 15, 1993, October 1, 1993, November 1, 1993, August 15, 1994, October 1, 1994, March 1, 1995, May 1, 1995, June 1, 1995, March 1, 1996 and February 1, 1997 (hereinafter referred to as the "First 1997 Supplemental Indenture"), respectively, amending and supplementing the Mortgage in certain respects (the Mortgage, as so amended and supplemented, being hereinafter called the "Original Indenture") and conveying to the Trustee, upon certain trusts, terms and conditions, and with and subject to certain provisos and covenants therein contained, certain property rights and property therein described; and

WHEREAS, effective October 7, 1988, pursuant to Section 115 of the Original Indenture, the Individual Trustee resigned and all powers of the Individual Trustee then terminated, as did the Individual Trustee's right, title or interest in and to the trust estate, and without appointment of a new trustee as successor to

the Individual Trustee, all the right, title and powers of the Trustee thereupon devolved upon the Corporate Trustee and its successors alone; and

WHEREAS, the Original Indenture provides that bonds issued thereunder may be issued in one or more series and further provides that, with respect to each series, the rate or rates of interest, the date or dates of maturity, the dates for the payment of interest, the terms and rates of optional redemption, and other terms and conditions not inconsistent with the Original Indenture may be established, prior to the issue of bonds of such series, by an indenture supplemental to the Original Indenture; and

WHEREAS, Section 132 of the Original Indenture provides that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Original Indenture, whether such power, privilege or right is in any way restricted or is unrestricted, may be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and that the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued under the Original Indenture and provide that a breach thereof shall be equivalent to a default under the Original Indenture, or the Company may cure any ambiguity or correct or supplement any defective or inconsistent provisions contained in the Original Indenture or in any indenture supplemental to the Original Indenture, by an instrument in writing, executed and acknowledged, and that the Trustee is authorized to join with the Company in the execution of any such instrument or instruments; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, as amended and supplemented as of the respective dates thereof, bonds of the series (which are outstanding), entitled and designated as hereinafter set forth, in the respective original aggregate principal amounts indicated:

<u>Series</u>	<u>Amount</u>
First Mortgage Bonds, 7.00% Series due 1999. . .	\$30,000,000
First Mortgage Bonds, 6.35% Series due 2000. . .	48,000,000
First Mortgage Bonds, 6-3/8% Series due 2001. . .	100,000,000
First Mortgage Bonds, 7.95% Series due 2002. . .	60,000,000
First Mortgage Bonds, 7.38% Series due 2002. . .	50,000,000
First Mortgage Bonds, 7.40% Series due 2002. . .	30,000,000
First Mortgage Bonds, 6.65% Series due 2003. . .	40,000,000
First Mortgage Bonds, 6.85% Series due 2003. . .	30,000,000
First Mortgage Bonds, 6.00% Series due 2003. . .	30,000,000
First Mortgage Bonds, 7.70% Series due 2004. . .	21,000,000

First Mortgage Bonds,	7.85%	Series due 2004. . .	50,000,000
First Mortgage Bonds,	8.00%	Series due 2005. . .	50,000,000
First Mortgage Bonds,	6.89%	Series due 2005. . .	30,000,000
First Mortgage Bonds,	6.80%	Series due 2006. . .	100,000,000
First Mortgage Bonds,	8.75%	Series due 2022. . .	50,000,000
First Mortgage Bonds,	8.70%	Series due 2022. . .	40,000,000
First Mortgage Bonds,	8.43%	Series due 2022. . .	50,000,000
First Mortgage Bonds,	8.50%	Series due 2022. . .	70,000,000
First Mortgage Bonds,	7.80%	Series due 2023. . .	40,000,000
First Mortgage Bonds,	7.90%	Series due 2023. . .	30,000,000
First Mortgage Bonds,	7.15%	Series due 2023. . .	30,000,000
First Mortgage Bonds,	7.125%	Series due 2024. . .	50,000,000
First Mortgage Bonds,	8.00%	Series due 2025. . .	50,000,000

and

WHEREAS, the Company, by appropriate corporate action in conformity with the terms of the Original Indenture, has duly determined to create a series of bonds under the Original Indenture to be designated as "First Mortgage Bonds, Designated Secured Medium Term Notes, 6.71% Series due June 1, 2000" (hereinafter sometimes referred to as the "bonds of the 62nd Series"); and

WHEREAS, each of the bonds of the 62nd Series is to be substantially in the form set forth in Schedule I to this Supplemental Indenture (hereinafter sometimes referred to as the "Second 1997 Supplemental Indenture"); and

WHEREAS, the Company, in the exercise of the powers and authorities conferred upon and reserved to it under and by virtue of the provisions of the Original Indenture, and pursuant to resolutions of its Board of Directors, has duly resolved and determined to make, execute and deliver to the Trustee a supplemental indenture, in the form hereof, for the purposes herein provided; and

WHEREAS, all conditions and requirements necessary to make this Second 1997 Supplemental Indenture a valid, binding and legal instrument in accordance with its terms, have been done, performed and fulfilled, and the execution and delivery thereof have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That Appalachian Power Company, in consideration of the premises and of the purchase and acceptance of the bonds by the holders thereof and of the sum of One Dollar (\$1.00) and other good and valuable consideration paid to it by the Trustee at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in order to secure the payment of both

the principal of and interest and premium, if any, on the bonds from time to time issued under and secured by the Original Indenture and this Second 1997 Supplemental Indenture, according to their tenor and effect, and the performance of all the provisions of the Original Indenture and this Second 1997 Supplemental Indenture (including any further indenture or indentures supplemental to the Original Indenture and any modification or alteration made as in the Original Indenture provided) and of said bonds, has granted, bargained, sold, released, conveyed, transferred, mortgaged, pledged, set over and confirmed, and by these presents does grant, bargain, sell, release, convey, assign, transfer, mortgage, pledge, set over and confirm unto Bankers Trust Company, as Trustee, and to its respective successor or successors in the trust hereby created, and to its and their assigns, all the following described properties of the Company, that is to say:

All property, real, personal and mixed, tangible and intangible, and all franchises owned by the Company on the date of the execution hereof, acquired since the execution of the First 1997 Supplemental Indenture (except any hereinafter expressly excepted from the lien and operation of this Second 1997 Supplemental Indenture).

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 63 of the Original Indenture) the tolls, rents, revenues, issues, earnings, income, product and profits thereof and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

Provided that, in addition to the reservations and exceptions herein elsewhere contained, the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of the Original Indenture and this Second 1997 Supplemental Indenture, viz.: (1) cash, shares of stock, and obligations (including bonds, notes and other securities) not hereinafter or in the Original Indenture specifically pledged, deposited or delivered hereunder or thereunder or hereinafter or therein covenanted so to be; (2) any goods, wares, merchandise, equipment, materials or supplies acquired for the purpose of sale or resale in the usual course of business or for consumption in the operation of any properties of the Company and automobiles and trucks; (3) all judgments, accounts, and choses in action, the proceeds of which the Company is not obligated as hereinafter

provided or as provided in the Original Indenture to deposit with the Trustee hereunder and thereunder; provided, however, that the property and rights expressly excepted from the lien and operation of the Original Indenture and this Second 1997 Supplemental Indenture in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted, in the event that the Trustee or a receiver or trustee shall enter upon and take possession of the mortgaged and pledged property in the manner provided in Article XIV of the Original Indenture by reason of the occurrence of a completed default, as defined in said Article XIV.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustee and its successors in the trust;

SUBJECT, HOWEVER, to the reservations, exceptions, conditions, limitations and restrictions contained in the several deeds, leases, servitudes, franchises and contracts or other instruments through which the Company acquired and/or claims title to and/or enjoys the use of the aforesaid properties; and subject also to encumbrances of the character defined in Section 6 of the Original Indenture as "excepted encumbrances" in so far as the same may attach to any of the property embraced herein.

Inasmuch as the Company holds certain of said lands, rights of way and other property under leases, power agreements and other contracts which provide that the Company's interest therein shall not be mortgaged without the consent of the respective lessors or other parties to said agreements and contracts, and such lessors and parties have either given such consent or have waived the requirement of such consent, it is hereby expressly agreed and made a condition upon which this Second 1997 Supplemental Indenture is executed and delivered, that the lien of this Second 1997 Supplemental Indenture and the estate, rights and remedies of the Trustee hereunder, and the rights and remedies of the holders of the bonds secured hereby and by the Original Indenture in so far as they may affect such lands, rights of way and other property now held or to be hereafter acquired by the Company under such leases, contracts or agreements, shall be subject and subordinate in all respects to the rights and remedies of the respective lessors or other parties thereto.

And it is hereby expressly covenanted and agreed as follows:

(a) That the rights of the Trustee hereunder, and of every person or corporation whatsoever claiming by reason of this Second 1997 Supplemental Indenture any right, title or interest, legal or equitable, in the property covered by any

such lease, power agreement or other contract, are and at all times hereafter shall be subject in the same manner and degree as the rights of the Company might or would at all times be subject, had this Second 1997 Supplemental Indenture not been made, to all terms, provisions, conditions, covenants, stipulations, and agreements, and to all exceptions, reservations, limitations, restrictions, and forfeitures contained in any such lease, power agreement or other contract;

(b) That any right, claim, condition or forfeiture which might at any time be asserted against the party in possession under the provisions of any such lease, power agreement or other contract, had this Second 1997 Supplemental Indenture not been made, may be asserted with the same force and effect against any and all persons or corporations at any time claiming any right, title or interest in any such property under or by reason of this Second 1997 Supplemental Indenture or of any bond hereby and by the Original Indenture secured; and

(c) That such consent or waiver of the requirement of such consent given by the lessor under any such lease or party to any such power agreement or other contract is intended and shall be construed to be solely for the purpose of permitting the Company to mortgage its property generally without violating the express covenant contained in such lease, power agreement or other contract, and that such consent or waiver of the requirement of such consent confers upon the Trustee hereunder and the holders of bonds secured hereby and by the Original Indenture no rights in addition to such as they would have had, respectively, if such consent or waiver of the requirement of such consent had not been given.

IN TRUST NEVERTHELESS, upon the terms and trusts in the Original Indenture and this Second 1997 Supplemental Indenture set forth, for the equal and pro rata benefit and security of those who shall hold the bonds and coupons issued and to be issued hereunder and under the Original Indenture, in accordance with the terms of the Original Indenture and of this Second 1997 Supplemental Indenture, without preference, priority or distinction as to lien of any of said bonds or coupons over any other thereof by reason of priority in the time of issuance or negotiation thereof, or otherwise howsoever, subject, however, to the conditions, provisions and covenants set forth in the Original Indenture and in this Second 1997 Supplemental Indenture.

AND THIS INDENTURE FURTHER WITNESSETH:

That in further consideration of the premises and for the considerations aforesaid, the Company, for itself and its successors and assigns, hereby covenants and agrees to and with the Trustee, and its successor or successors in such trust, under the Original Indenture, as follows:

Section 1. The Original Indenture is hereby supplemented by adding immediately after Section 20HHH, a new Section 20III, as follows:

SECTION 20III. The Company hereby creates a sixty-second series of bonds to be issued under and secured by this Indenture, to be designated and to be distinguished from the bonds of all other series by the title "First Mortgage Bonds, Designated Secured Medium Term Notes, 6.71% Series due June 1, 2000" (herein sometimes referred to as the "bonds of the 62nd Series"). The form of the bonds of the 62nd Series shall be substantially as set forth in Schedule I to the Second 1997 Supplemental Indenture.

Bonds of the 62nd Series shall mature on the date specified in their title. Unless otherwise determined by the Company, the bonds of the 62nd Series shall be issued in fully registered form without coupons in denominations of \$1,000 and in integral multiples thereof; the principal of and premium (if any) and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in lawful money of the United States of America, provided that at the option of the Company interest may be mailed to registered owners of the bonds at their respective addresses that appear on the register thereof; and the rate of interest shall be the rate per annum specified in the title thereof, payable semi-annually on the first days of April and October of each year (commencing October 1, 1997) and on their maturity date.

The person in whose name any bond of the 62nd Series is registered at the close of business on any record date (as hereinbelow defined) with respect to any regular semi-annual interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such bond of the 62nd Series upon any registration of transfer or exchange thereof subsequent to the record date and prior to such interest payment date, except, if and to the extent that the Company shall default in the payment of the interest due on such interest payment date, then the registered owners of bonds of the 62nd Series on such record date shall have no further right to or claim in respect

of such defaulted interest as such registered owners on such record date, and the persons entitled to receive payment of any defaulted interest thereafter payable or paid on any bonds of the 62nd Series shall be the registered owners of such bonds of the 62nd Series (or any bond or bonds issued, directly or after intermediate transactions upon transfer or exchange or in substitution thereof) on the date of payment of such defaulted interest. Interest payable upon maturity shall be payable to the person to whom the principal is paid. The term "record date" as used in this Section 20III, and in the form of the bonds of the 62nd Series, with respect to any regular semi-annual interest payment date applicable to the bonds of the 62nd Series, shall mean the March 15 next preceding an April 1 interest payment date or the September 15 next preceding an October 1 interest payment date, as the case may be, or, if such March 15 or September 15 is not a Business Day (as defined hereinbelow), the next preceding Business Day. The term "Business Day" with respect to any bond of the 62nd Series shall mean any day, other than a Saturday or Sunday, which is not a day on which banking institutions or trust companies in The City of New York, New York or the city in which is located any office or agency maintained for the payment of principal of or premium, if any, or interest on such bond of the 62nd Series are authorized or required by law, regulation or executive order to remain closed.

Every registered bond of the 62nd Series shall be dated the date of authentication ("Issue Date") and shall bear interest computed on the basis of a 360-day year consisting of twelve 30-day months from its Issue Date or from the latest semi-annual interest payment date to which interest has been paid on the bonds of the 62nd Series preceding the Issue Date, unless such Issue Date be an interest payment date to which interest is being paid on the bonds of the 62nd Series, in which case it shall bear interest from its Issue Date or unless the Issue Date be the record date for the interest payment date first following the date of original issuance of bonds of the 62nd Series (the "Original Issue Date"), or a date prior to such record date, then from the Original Issue Date; provided that, so long as there is no existing default in the payment of interest on said bonds, the owner of any bond authenticated by the Corporate Trustee between the record date for any regular semi-annual interest payment date and such interest payment date shall not be entitled to the payment of the interest due on such interest payment date and shall have no claim against the Company with respect thereto; provided further, that, if and to the extent the Company shall default in the payment of the interest due on such interest payment date, then any such bond shall bear interest from the April 1 or October 1, as the case may be, next preceding its

Issue Date, to which interest has been paid or, if the Company shall be in default with respect to the interest payment date first following the Original Issue Date, then from the Original Issue Date.

If any semi-annual interest payment date or the maturity date is not a Business Day, payment of amounts due on such date may be made on the next succeeding Business Day, and, if such payment is made or duly provided for on such Business Day, no interest shall accrue on such amounts for the period from and after such interest payment date or the maturity date, as the case may be, to such Business Day.

Notwithstanding the provisions of Section 14 of this Indenture, the bonds of the 62nd Series shall be executed on behalf of the Company by its Chairman of the Board, by its President or by one of its Vice Presidents or by one of its officers designated by the Board of Directors of the Company for such purpose, whose signature may be a facsimile, and its corporate seal shall be thereunto affixed or printed thereon and attested by its Secretary or one of its Assistant Secretaries, and the provisions of the penultimate sentence of said Section 14 shall be applicable to such bonds of the 62nd Series.

The bonds of the 62nd Series are not redeemable prior to their maturity.

Notwithstanding the provisions of Section 12 of this Indenture, the Company shall not be required to make transfers or exchanges of bonds of the 62nd Series for a period of fifteen days next preceding any interest payment date.

Registered bonds of the 62nd Series shall be transferable upon presentation and surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, and at such other office or agency of the Company as the Company may from time to time designate, by the registered owners thereof, in person or by duly authorized attorney, in the manner and upon payment, if required by the Company, of the charges prescribed in this Indenture. In the manner and upon payment, if required by the Company, of the charges prescribed in this Indenture, registered bonds of the 62nd Series may be exchanged for a like aggregate principal amount of registered bonds of the 62nd Series of other authorized denominations, upon presentation and surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, or at such other office or agency of the Company as the Company may from time to time designate.

Section 2. Initial Issuance of the Bonds of the 62nd Series:

In accordance with and upon compliance with such provisions of the Original Indenture as shall be selected for such purpose by the officers of the Company duly authorized to take such action, bonds of the 62nd Series, in an aggregate principal amount not exceeding \$48,000,000, shall forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company (without awaiting the filing and recording of this Second 1997 Supplemental Indenture except to the extent required by subdivision (10) of Section 29 of the Original Indenture).

Section 3. At any meeting of bondholders held as provided for in Article XX of the Original Indenture at which owners of bonds of the 62nd Series are entitled to vote, all owners of bonds of the 62nd Series at the time of such meeting shall be entitled to vote thereat; provided, however, that the Trustee may, and upon request of the Company or of a majority of the bondowners of the 62nd Series, shall, fix a day not exceeding ninety days preceding the date for which the meeting is called as a record date for the determination of owners of bonds of the 62nd Series, entitled to notice of and to vote at such meeting and any adjournment thereof and only such registered owners who shall have been such registered owners on the date so fixed, and who are entitled to vote such bonds of the 62nd Series at the meeting, shall be entitled to receive notice of such meeting.

Section 4. As supplemented by this Second 1997 Supplemental Indenture, the Original Indenture is in all respects ratified and confirmed and the Original Indenture and this Second 1997 Supplemental Indenture shall be read, taken and construed as one and the same instrument. The bonds of the 62nd Series are the original debt secured by this Second 1997 Supplemental Indenture and the Original Indenture, and this Second 1997 Supplemental Indenture and the Original Indenture shall be, and shall be deemed to be, the original lien instrument securing the bonds of the 62nd Series.

Section 5. Nothing contained in this Second 1997 Supplemental Indenture shall, or shall be construed to, confer upon any person other than the owners of bonds issued under the Original Indenture and this Second 1997 Supplemental Indenture, the Company and the Trustee, any right to avail themselves of any benefit of any provision of the Original Indenture or of this Second 1997 Supplemental Indenture.

Section 6. This Second 1997 Supplemental Indenture may be simultaneously executed in several counterparts and all such

counterparts executed and delivered, each as an original, shall constitute one and the same instrument.

IN WITNESS WHEREOF, APPALACHIAN POWER COMPANY, party of the first part, has caused this instrument to be signed in its name and behalf by its President, a Vice President, its Treasurer or an Assistant Treasurer, and its corporate seal to be hereunto affixed and attested by its Secretary or an Assistant Secretary, and BANKERS TRUST COMPANY, party of the second part, in token of its acceptance hereof, has caused this instrument to be signed in its name and behalf by a Vice President or an Assistant Vice President and its corporate seal to be hereunto affixed and attested by its Secretary, an Assistant Secretary, Assistant Vice President or Assistant Treasurer. Executed and delivered as of the date and year first above written.

[SEAL]

APPALACHIAN POWER COMPANY

By: B. M. Barber
B. M. Barber
Assistant Treasurer

Attest:

John M. Adams, Jr.
John M. Adams, Jr.
Assistant Secretary

In the presence of:

David C. House
David C. House
Ann B. Graf
Ann B. Graf

[SEAL]

BANKERS TRUST COMPANY

By

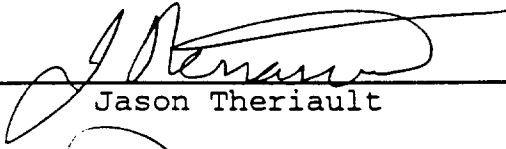

James McDonough
Vice President

Attest:

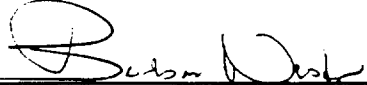


Scott Thiel
Assistant Vice President

Executed by BANKERS TRUST COMPANY
in the presence of:



Jason Theriault



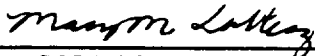
Barbara Nastro

STATE OF OHIO)
) SS:
COUNTY OF FRANKLIN)

On this 14th day of May, 1997, personally appeared before me, a Notary Public within and for said County in the State aforesaid, B. M. BARBER and JOHN M. ADAMS, JR., to me known and known to me to be respectively an Assistant Treasurer and Assistant Secretary of APPALACHIAN POWER COMPANY, one of the corporations named in and which executed the foregoing instrument, who severally acknowledged that they did sign and seal said instrument as such Assistant Treasurer and Assistant Secretary for and on behalf of said corporation and that the same is their free act and deed as such Assistant Treasurer and Assistant Secretary, respectively, and the free and corporate act and deed of said corporation.

In Witness Whereof, I have hereunto set my hand and notarial seal this 14th day of May, 1997.

[Notarial Seal]



MARY M. SOLTESZ
Notary Public, State of Ohio
My Commission Expires July 12, 1999

STATE OF NEW YORK)
)
COUNTY OF NEW YORK) SS:

I, PATRICIA M. CARILLO, a Notary Public, duly qualified, commissioned and sworn, and acting in and for the County and State aforesaid, hereby certify that on this 31st day of May, 1997:

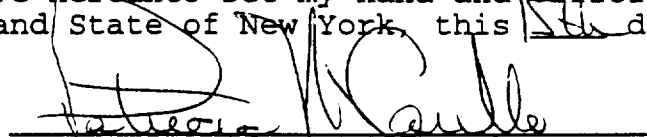
JAMES MC DONOUGH and SCOTT THIEL, whose names are signed to the writing above, bearing a date as of the 1st day of May, 1997, as Vice President and Assistant Vice President, respectively, of BANKERS TRUST COMPANY, have this day acknowledged the same before me in my County aforesaid.

JAMES MC DONOUGH who signed the writing above and hereto annexed for BANKERS TRUST COMPANY, a corporation, bearing a date as of the 1st day of May, 1997, has this day in my said County before me acknowledged the said writing to be the act and deed of said corporation.

Before me appeared JAMES MC DONOUGH and SCOTT THIEL to me personally known, who, being by me duly sworn, did say that they are Vice President and Assistant Vice President, respectively, of BANKERS TRUST COMPANY, and that the seal affixed to said instrument is the corporate seal of said corporation, and that said instrument was signed and sealed in behalf of said corporation, by authority of its Board of Directors and said JAMES MC DONOUGH acknowledged said instrument to be the free act and deed of said corporation.

SCOTT THIEL personally came before me this day and acknowledged that he is an Assistant Vice President of BANKERS TRUST COMPANY, a corporation, and that by authority duly given and as the act of the corporation, the foregoing instrument was signed in its name by an Assistant Vice President, sealed with its corporate seal, and attested by himself as an Assistant Vice President.

IN WITNESS WHEREOF, I have hereunto set my hand and official notarial seal, in the County and State of New York, this 31st day of May, 1997.


PATRICIA M. CARILLO

Notary Public, State of New York
No. 41-4747732

Qualified in Queens County
Certificate filed in New York County
Commission expires May 31, 1997

[SEAL]

The foregoing instrument was prepared by David C. House, 1 Riverside Plaza, Columbus, Ohio 43215.

SCHEDULE I

APPALACHIAN POWER COMPANY
FIRST MORTGAGE BOND, DESIGNATED
SECURED MEDIUM TERM NOTE, 6.71%
SERIES DUE JUNE 1, 2000

Bond No.

Original Issue Date: May 27, 1997

Principal Amount:

Semi-annual Interest Payment Dates: April 1 and October 1

Record Dates: March 15 and September 15

CUSIP No: 03774B AY9

APPALACHIAN POWER COMPANY, a corporation of the Commonwealth of Virginia (hereinafter called the "Company"), for value received, hereby promises to pay to _____, or registered assigns, the Principal Amount set forth above on the maturity date specified in the title of this bond in lawful money of the United States of America, at the office or agency of the Company in the Borough of Manhattan, The City of New York, and to pay to the registered owner hereof interest on said sum from the date of authentication of this bond (herein called the "Issue Date") or latest semi-annual interest payment date to which interest has been paid on the bonds of this series preceding the Issue Date, unless the Issue Date be an interest payment date to which interest is being paid, in which case from the Issue Date or unless the Issue Date be the record date for the interest payment date first following the Original Issue Date set forth above or a date prior to such record date, then from the Original Issue Date (or, if the Issue Date is between the record date for any interest payment date and such interest payment date, then from such interest payment date, provided, however, that if and to the extent that the Company shall default in the payment of the interest due on such interest payment date, then from the next preceding semi-annual interest payment date to which interest has been paid on the bonds of this series, or if such interest payment date is the interest payment date first following the Original Issue Date set forth above, then from the Original Issue Date), until the principal hereof shall have become due and payable, at the rate per annum specified in the title of this bond, payable on April 1 and October 1 of each year (commencing October 1, 1997) and on the maturity date specified in the title of this bond; provided that, at the option of the Company, such interest may be paid by check, mailed to the registered owner of this bond at such owner's address appearing on the register hereof.

This bond is one of a duly authorized issue of bonds of the Company, issuable in series, and is one of a series known as its First Mortgage Bonds, of the series designated in its title, all bonds of all series issued and to be issued under and equally secured (except in so far as any sinking fund, established in accordance with the provisions of the Mortgage hereinafter mentioned, may afford additional security for the bonds of any particular series and except as provided in Section 73 of the Mortgage) by a Mortgage and Deed of Trust (herein, together with all indentures supplemental thereto, called the Mortgage), dated as of December 1, 1940, executed by APPALACHIAN ELECTRIC POWER COMPANY (the corporate title of which was changed to APPALACHIAN POWER COMPANY) to BANKERS TRUST COMPANY, as Trustee, to which Mortgage reference is made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the bonds and of the Trustee in respect thereof, the duties and immunities of the Trustee, and the terms and conditions upon which the bonds are secured. With the consent of the Company and to the extent permitted by and as provided in the Mortgage, the rights and obligations of the Company and/or of the holders of the bonds and/or coupons and/or the terms and provisions of the Mortgage and/or of any instruments supplemental thereto may be modified or altered by affirmative vote of the holders of at least seventy-five per centum (75%) in principal amount of the bonds affected by such modification or alteration, then outstanding under the Mortgage (excluding bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage); provided that, without the consent of the owner hereof no such modification or alteration shall permit the extension of the maturity of the principal of or interest on this bond or the reduction in the rate of interest hereon or any other modification in the terms of payment of such principal or interest or the creation of a lien on the mortgaged and pledged property ranking prior to or on a parity with the lien of the Mortgage or the deprivation of the owner hereof of a lien upon such property or reduce the above percentage.

As provided in said Mortgage, said bonds may be for various principal sums and are issuable in series, which may mature at different times, may bear interest at different rates and may otherwise vary as therein provided, and this bond is one of a series entitled "First Mortgage Bonds, Designated Secured Medium Term Notes, 6.71% Series due June 1, 2000 (herein called "bonds of the 62nd Series") created by an Indenture Supplemental to Mortgage and Deed of Trust dated as of May 1, 1997 (the "Second 1997 Supplemental Indenture"), as provided for in said Mortgage.

The interest payable on any April 1 or October 1 will, subject to certain exceptions provided in said Second 1997 Supplemental Indenture, be paid to the person in whose name this bond is registered at the close of business on the record date, which shall

be the March 15 or September 15, as the case may be, next preceding such interest payment date, or, if such March 15 or September 15 is not a Business Day (as hereinbelow defined), the next preceding Business Day. Interest payable upon maturity shall be payable to the person to whom the principal is paid. The term "Business Day" means any day, other than a Saturday or Sunday, which is not a day on which banking institutions or trust companies in The City of New York, New York or the city in which is located any office or agency maintained for the payment of principal or premium, if any, or interest on bonds of the 62nd Series are authorized or required by law, regulation or executive order to remain closed.

If any semi-annual interest payment date or the maturity date is not a Business Day, payment of amounts due on such date may be made on the next succeeding Business Day, and, if such payment is made or duly provided for on such Business Day, no interest shall accrue on such amounts for the period from and after such interest payment date or the maturity date, as the case may be, to such Business Day.

The Company and the Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment of or on account of principal or (subject to the provisions hereof) interest hereon and for all other purposes and the Company and the Trustee shall not be affected by any notice to the contrary.

The Company shall not be required to make transfers or exchanges of bonds of the 62nd Series for a period of fifteen days next preceding any interest payment date.

The Bonds of the 62nd Series are not redeemable prior to their maturity.

The principal hereof may be declared or may become due prior to the express date of the maturity hereof on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a completed default as in the Mortgage provided.

This bond is transferable as prescribed in the Mortgage by the registered owner hereof in person, or by his duly authorized attorney, at the office or agency of the Company in the Borough of Manhattan, The City of New York, and at such other office or agency of the Company as the Company may designate, upon surrender and cancellation of this bond and upon payment, if the Company shall require it, of the transfer charges prescribed in the Mortgage, and, thereupon, a new registered bond or bonds of authorized denominations of the same series for a like principal amount will be issued to the transferee in exchange herefor as provided in the Mortgage. In the manner and upon payment, if the Company shall require it, of the charges prescribed in the Mortgage, registered

bonds of the 62nd Series may be exchanged for a like aggregate principal amount of registered bonds of other authorized denominations of the same series, upon presentation and surrender thereof, for cancellation, at the office or agency of the Company in the Borough of Manhattan, The City of New York, or at such other office or agency of the Company as the Company may from time to time designate.

No recourse shall be had for the payment of the principal of or interest on this bond against any incorporator or any past, present or future stockholder, officer or director, as such, of the Company or of any successor corporation, either directly or through the Company or any successor corporation, under any rule of law, statute or constitution or by the enforcement of any assessment or otherwise, all such liability of incorporators, stockholders, officers and directors, as such, being waived and released by the holder or owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Mortgage.

This bond shall not become valid or obligatory for any purpose until BANKERS TRUST COMPANY, the Trustee under the Mortgage, or its successor thereunder, shall have signed the form of Authentication Certificate endorsed hereon.

In Witness Whereof, Appalachian Power Company has caused this bond to be executed in its name by the signature of its Chairman of the Board, its President, one of its Vice Presidents or its Treasurer and its corporate seal, or a facsimile thereof, to be impressed or imprinted hereon and attested by the signature of its Secretary or one of its Assistant Secretaries.

Dated:

APPALACHIAN POWER COMPANY

By _____
Treasurer

(SEAL)

Attest: _____
Assistant Secretary

TRUSTEE'S AUTHENTICATION CERTIFICATE

This bond is one of the bonds,
of the series herein designated,
described in the within-mentioned
Mortgage.

BANKERS TRUST COMPANY,
as Trustee,

By _____
Authorized Officer

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE)

(PLEASE PRINT OR TYPE NAME AND ADDRESS, INCLUDING ZIP CODE, OF
ASSIGNEE) the within Bond and all rights thereunder, hereby
irrevocably constituting and appointing such person attorney to
transfer such Bond on the books of the Issuer, with full power of
substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

APPALACHIAN POWER COMPANY

AND

THE FIRST NATIONAL BANK OF CHICAGO,
as Trustee

SECOND SUPPLEMENTAL INDENTURE

Dated as of March 1, 1997

TO

INDENTURE

Dated as of September 1, 1996

8 $\frac{1}{2}$ Junior Subordinated
Deferrable Interest Debentures,
Series B, Due 2027

SECOND SUPPLEMENTAL INDENTURE, dated as of the 1st day of March, 1997 (the "Second Supplemental Indenture"), between APPALACHIAN POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Virginia (hereinafter sometimes referred to as the "Company"), and THE FIRST NATIONAL BANK OF CHICAGO, a national banking association organized and existing under the laws of the United States, as trustee (hereinafter sometimes referred to as the "Trustee") under the Indenture dated as of September 1, 1996 between the Company and the Trustee, as supplemented by a First Supplemental Indenture dated September 1, 1996 (the "Indenture"); all terms used and not defined herein are used as defined in the Indenture.

WHEREAS, the Company executed and delivered the Indenture to the Trustee to provide for the future issuance of its junior subordinated debentures (the "Debentures"), said Debentures to be issued from time to time in series as might be determined by the Company under the Indenture, in an unlimited aggregate principal amount which may be authenticated and delivered thereunder as in the Indenture provided; and

WHEREAS, pursuant to the terms of the Indenture, the Company desires to provide for the establishment of a new series of its Debentures to be known as its 8% Junior Subordinated Deferrable Interest Debentures, Series B, Due 2027 (said series being hereinafter referred to as the "Series B Debentures"), the form and substance of such Series B Debentures and the terms, provisions and conditions thereof to be set forth as provided in the Indenture and this Second Supplemental Indenture; and

WHEREAS, the Company desires and has requested the Trustee to join with it in the execution and delivery of this Second Supplemental Indenture, and all requirements necessary to make this Second Supplemental Indenture a valid instrument, in accordance with its terms, and to make the Series B Debentures, when executed by the Company and authenticated and delivered by the Trustee, the valid obligations of the Company, have been performed and fulfilled, and the execution and delivery hereof have been in all respects duly authorized;

NOW THEREFORE, in consideration of the purchase and acceptance of the Series B Debentures by the holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the Series B Debentures and the terms, provisions and conditions thereof, the Company covenants and agrees with the Trustee as follows:

ARTICLE ONE

General Terms and Conditions of the Series B Debentures

SECTION 1.01. There shall be and is hereby authorized a series of Debentures designated the "8% Junior Subordinated Deferrable Interest Debentures, Series B, Due 2027", limited in aggregate principal amount to \$90,000,000, which amount shall be as set forth in any written order of the Company for the authentication and delivery of Series B Debentures pursuant to Section 2.01 of the Indenture. The Series B Debentures shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon on March 31, 2027, and shall be issued in the form of registered Series B Debentures without coupons.

SECTION 1.02. Except as provided in Section 2.11(c) of the Indenture, the Series B Debentures shall be issued initially in the form of a Global Debenture in an aggregate principal amount equal to all outstanding Series B Debentures, to be registered in the name of the Depository, or its nominee, and delivered by the Trustee to the Depository for crediting to the accounts of its participants pursuant to the instructions of the Company. The Company shall execute a Global Debenture in such aggregate principal amount and deliver the same to the Trustee for authentication and delivery as hereinabove and in the Indenture provided. Payments on the Series B Debentures issued as a Global Debenture will be made to the Depository. The Depository for the Series B Debentures shall be The Depository Trust Company, New York, New York.

SECTION 1.03. If, pursuant to the provisions of Section 2.11(c) of the Indenture, the Series B Debentures are issued in certificated form, principal, premium, if any, and interest on the Series B Debentures will be payable, the transfer of such Series B Debentures will be registrable and such Series B Debentures will be exchangeable for Series B Debentures bearing identical terms and provisions at the office or agency of the Company only upon surrender of such certificated Series B Debenture and such other documents as required by the Indenture; provided, however, that payment of interest may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Debenture Register.

SECTION 1.04. Each Series B Debenture shall bear interest at the rate of 8% per annum from the original date of issuance until the principal thereof becomes due and payable, and on any overdue principal and (to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum, payable (subject to the provisions of Article Three hereof) quarterly in arrears on each

March 31, June 30, September 30 and December 31 (each, an "Interest Payment Date"), commencing on March 31, 1997. Interest (other than interest payable on redemption or maturity) shall be payable to the person in whose name such Series B Debenture or any predecessor Series B Debenture is registered at the close of business on the regular record date for such interest installment. The regular record date for such interest installment shall be the close of business on the business day next preceding that Interest Payment Date; except that if, pursuant to the provisions of Section 2.11(c) of the Indenture, the Series B Debentures are no longer represented by a Global Debenture, the regular record date for such interest installment shall be the close of business on the March 15, June 15, September 15 or December 15 (whether or not a business day) next preceding the Interest Payment Date. Interest payable on redemption or maturity shall be payable to the person to whom the principal is paid. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name the Series B Debenture (or one or more Predecessor Debentures) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of the Series B Debentures not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Series B Debentures may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series B Debentures is not a business day, then payment of interest payable on such date will be made on the next succeeding day which is a business day (and without any interest or other payment in respect of any such delay), except that, if such business day is in the next succeeding calendar year, such payment shall be made on the immediately preceding business day, in each case with the same force and effect as if made on such date.

ARTICLE TWO

Redemption of the Series B Debentures

SECTION 2.01. Subject to the terms of Article Three of the Indenture, the Company shall have the right to redeem the Series B Debentures, in whole or in part, from time to time, at the time and redemption price set forth in the form of Debenture contained in Exhibit A hereto. Any redemption pursuant to this Section will be made upon not less than 30 nor more than 60 days' notice. If the Series B Debentures are only partially redeemed pursuant to this

Section, the Debentures will be redeemed pro rata or by lot or by any other method utilized by the Trustee; provided, that if at the time of redemption, the Series B Debentures are registered as a Global Debenture, the Depository shall determine by lot the principal amount of such Series B Debentures held by each Series B Debentureholder to be redeemed.

ARTICLE THREE

Extension of Interest Payment Period

SECTION 3.01. The Company shall have the right, at any time during the term of the Series B Debentures, from time to time to extend the interest payment period of such Series B Debentures for up to 20 consecutive quarters (the "Extended Interest Payment Period"), at the end of which period the Company shall pay all interest accrued and unpaid thereon (together with interest thereon compounded quarterly at the rate specified for the Series B Debentures to the extent permitted by applicable law); provided that, during such Extended Interest Payment Period, the Company shall not declare or pay any dividend on, or purchase, acquire or make a liquidation payment with respect to, any of its capital stock or make any guarantee payments with respect to the foregoing. Prior to the termination of any such Extended Interest Payment Period, the Company may further extend such period, provided that such period together with all such previous and further extensions thereof shall not exceed 20 consecutive quarters or extend beyond the maturity of the Series B Debentures. Upon the termination of any Extended Interest Payment Period and upon the payment of all accrued and unpaid interest then due, the Company may select a new Extended Interest Payment Period, subject to the foregoing requirements. No interest shall be due and payable during an Extended Interest Payment Period, except at the end thereof.

SECTION 3.02. (a) The Company shall give the holders of the Series B Debentures and the Trustee written notice of its selection of such Extended Interest Payment Period at least 10 business days prior to the earlier of (i) the next succeeding Interest Payment Date or (ii) the date the Company is required to give notice to holders of the Series B Debentures (or, if applicable, to the New York Stock Exchange or other applicable self-regulatory organization), of the record or payment date of such interest payment, but in any event not less than two business days prior to such record date.

(b) The quarter in which any notice is given pursuant to paragraph (a) of this Section shall constitute one of the 20 quarters which comprise the maximum Extended Interest Payment Period.

ARTICLE FOUR

Form of Series B Debenture

SECTION 4.01. The Series B Debentures and the Trustee's Certificate of Authentication to be endorsed thereon are to be substantially in the form of Exhibit A hereto.

ARTICLE FIVE

Original Issue of Series B Debentures

SECTION 5.01. Series B Debentures in the aggregate principal amount of \$90,000,000 may, upon execution of this Second Supplemental Indenture, or from time to time thereafter, be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Debentures to or upon the written order of the Company, signed by its Chairman of the Board, its President, or any Vice President and its Treasurer or an Assistant Treasurer, without any further action by the Company.

ARTICLE SIX

Covenant of the Company

SECTION 6.01. The Company will not declare or pay any dividend on, or purchase, acquire or make a distribution or liquidation payment with respect to, any of its capital stock, or make any guarantee payments with respect thereto, if at such time (i) there shall have occurred and be continuing any Event of Default under the Indenture or (ii) the Company shall have given notice of its selection of an Extended Interest Payment Period and such period, or any extension thereof, shall be continuing.

ARTICLE SEVEN

Miscellaneous Provisions

SECTION 7.01. Except as otherwise expressly provided in this Second Supplemental Indenture or in the form of Series B Debenture or otherwise clearly required by the context hereof or thereof, all terms used herein or in said form of Series B Debenture that are defined in the Indenture shall have the several meanings respectively assigned to them thereby.

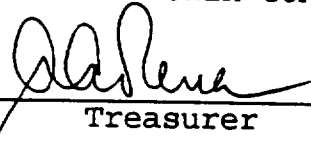
SECTION 7.02. The Indenture, as supplemented by this Second Supplemental Indenture, is in all respects ratified and confirmed, and this Second Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.

SECTION 7.03. The recitals herein contained are made by the Company and not by the Trustee, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Second Supplemental Indenture.

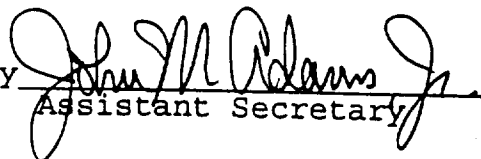
SECTION 7.04. This Second Supplemental Indenture may be executed in any number of counterparts each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, on the date or dates indicated in the acknowledgments and as of the day and year first above written.

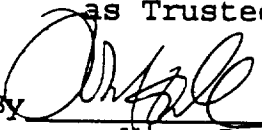
APPALACHIAN POWER COMPANY

By 
Treasurer


Attest:

By 
Assistant Secretary

THE FIRST NATIONAL BANK OF CHICAGO
as Trustee

By 
Vice President

Attest:

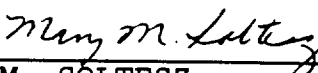
By 
Authorized Officer

State of Ohio }
County of Franklin, } ss:

On this 14th day of March, 1997, personally appeared before me, a Notary Public within and for said County in the State aforesaid, A. A. Pena and John M. Adams, Jr., to me known and known to me to be respectively Treasurer and Assistant Secretary of APPALACHIAN POWER COMPANY, one of the corporations named in and which executed the foregoing instrument, who severally acknowledged that they did sign and seal said instrument as such Treasurer and Assistant Secretary for and on behalf of said corporation and that the same is their free act and deed as such Treasurer and Assistant Secretary, respectively, and the free and corporate act and deed of said corporation.

In Witness Whereof, I have hereunto set my hand and notarial seal this 14th day of March, 1997.

[Notarial Seal]



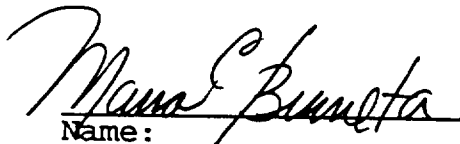
MARY M. SOLTESZ
Notary Public, State of Ohio
My Commission Expires 7-12-99

State of Illinois }
County of Cook } ss:

Be it remembered, that on this 13th day of March, 1997, personally appeared before me the undersigned, a Notary Public within and for said County and State, THE FIRST NATIONAL BANK OF CHICAGO, one of the corporations named in and which executed the foregoing instrument, by Richard D. Manella, one of its Vice Presidents, and by Grace A. Gorka, one of its Authorized Officers, to me known and known by me to be such Vice President and Authorized Officer, respectively, who severally duly acknowledged the signing and sealing of the foregoing instrument to be their free act and voluntary deed, and the free act and voluntary deed of each of them as such Vice President and Authorized Officer, respectively, and the free act and voluntary deed of said corporation, for the uses and purposes therein expressed and mentioned.

In Witness Whereof, I have hereunto set my hand and notarial seal this 13th day of March, 1997.

[Notarial Seal]



Name:

Notary Public, State of _____

My Commission Expires _____



(FORM OF FACE OF DEBENTURE)

[IF THE SERIES B DEBENTURE IS TO BE A GLOBAL DEBENTURE, INSERT - This Debenture is a Global Debenture within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depository or a nominee of a Depository. This Debenture is exchangeable for Debentures registered in the name of a person other than the Depository or its nominee only in the limited circumstances described in the Indenture, and no transfer of this Debenture (other than a transfer of this Debenture as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository) may be registered except in limited circumstances.]

Unless this Debenture is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the issuer or its agent for registration of transfer, exchange or payment, and any Debenture issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC and any payment hereon is made to Cede & Co., or to such other entity as is requested by an authorized representative of DTC, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]

No. _____

\$ _____

CUSIP No. _____

APPALACHIAN POWER COMPANY

8 $\frac{1}{2}$ JUNIOR SUBORDINATED
DEFERRABLE INTEREST DEBENTURE,
SERIES B, DUE 2027

APPALACHIAN POWER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Virginia (herein referred to as the "Company", which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____ or registered assigns, the principal sum of _____ Dollars on March 31, 2027, and to pay interest on said principal sum from March 18, 1997 or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly (subject to deferral as set forth herein) in arrears on each March 31, June 30, September 30 and December 31

commencing March 31, 1997 at the rate of 8% per annum until the principal hereof shall have become due and payable, and on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the same rate per annum during such overdue period. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on this Debenture is not a business day, then payment of interest payable on such date will be made on the next succeeding day which is a business day (and without any interest or other payment in respect of any such delay), except that, if such business day is in the next succeeding calendar year, such payment shall be made on the immediately preceding business day, in each case with the same force and effect as if made on such date. The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date (other than interest payable on redemption or maturity) will, as provided in the Indenture, be paid to the person in whose name this Debenture (or one or more Predecessor Debentures, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment, [which shall be the close of business on the business day next preceding such Interest Payment Date.] [IF PURSUANT TO THE PROVISIONS OF SECTION 2.11(C) OF THE INDENTURE THE SERIES B DEBENTURES ARE NO LONGER REPRESENTED BY A GLOBAL DEBENTURE -- which shall be the close of business on the March 15, June 15, September 15 or December 15 (whether or not a business day) next preceding such Interest Payment Date.] Interest payable on redemption or maturity shall be payable to the person to whom the principal is paid. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name this Debenture (or one or more Predecessor Debentures) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of this series of Debentures not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Debentures may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. The principal of (and premium, if any) and the interest on this Debenture shall be payable at the office or agency of the Company maintained for that purpose, in any coin or currency of the United States of America which at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Debenture Register.

Payment of the principal of, premium, if any, and interest on this Debenture is, to the extent provided in the Indenture, subordinated and subject in right of payment to the prior payment in full of all Senior Indebtedness, as defined in the Indenture, and this Debenture is issued subject to the provisions of the Indenture with respect thereto. Each Holder of this Debenture, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his or her behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee his or her attorney-in-fact for any and all such purposes. Each Holder hereof, by his or her acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such holder upon said provisions.

This Debenture shall not be entitled to any benefit under the Indenture hereinafter referred to, be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

Unless the Certificate of Authentication hereon has been executed by the Trustee or a duly appointed Authentication Agent referred to on the reverse side hereof, this Debenture shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

The provisions of this Debenture are continued on the reverse side hereof and such continued provisions shall for all purposes have the same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Company has caused this Instrument to be executed.

Dated _____

APPALACHIAN POWER COMPANY

By _____

Attest:

By _____

(FORM OF CERTIFICATE OF AUTHENTICATION)

CERTIFICATE OF AUTHENTICATION

This is one of the Debentures of the series of Debentures described in the within-mentioned Indenture.

THE FIRST NATIONAL BANK OF CHICAGO
as Trustee or as Authentication Agent

By _____
Authorized Signatory

(FORM OF REVERSE OF DEBENTURE)

This Debenture is one of a duly authorized series of Debentures of the Company (herein sometimes referred to as the "Debentures"), specified in the Indenture, all issued or to be issued in one or more series under and pursuant to an Indenture dated as of September 1, 1996 duly executed and delivered between the Company and The First National Bank of Chicago, a national banking association organized and existing under the laws of the United States, as Trustee (herein referred to as the "Trustee"), as supplemented by the First Supplemental Indenture dated as of September 1, 1996 and the Second Supplemental Indenture dated as of March 1, 1997 between the Company and the Trustee (said Indenture as so supplemented being hereinafter referred to as the "Indenture"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Debentures. By the terms of the Indenture, the Debentures are issuable in series which may vary as to amount, date of maturity, rate of interest and in other respects as in the Indenture provided. This series of Debentures is limited in aggregate principal amount as specified in said Second Supplemental Indenture.

Subject to the terms of Article Three of the Indenture, the Company shall have the right to redeem this Debenture at the option of the Company, without premium or penalty, in whole or in part at any time on or after March 18, 2002 (an "Optional Redemption"), at a redemption price equal to 100% of the principal amount plus any accrued but unpaid interest to the date of such redemption (the "Optional Redemption Price"). Any redemption pursuant to this paragraph will be made upon not less than 30 nor more than 60 days' notice, at the Optional Redemption Price. If the Debentures are only partially redeemed by the Company pursuant to an Optional Redemption, the Debentures will be redeemed pro rata or by lot or

by any other method utilized by the Trustee; provided that if at the time of redemption, the Debentures are registered as a Global Debenture, the Depository shall determine by lot the principal amount of such Debentures held by each Debentureholder to be redeemed.

In the event of redemption of this Debenture in part only, a new Debenture or Debentures of this series for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Debentures may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Debenture upon compliance by the Company with certain conditions set forth therein.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the Debentures of each series affected at the time outstanding, as defined in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or of modifying in any manner the rights of the Holders of the Debentures; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity of any Debentures of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the holder of each Debenture so affected or (ii) reduce the aforesaid percentage of Debentures, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of each Debenture then outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Debentures of all series at the time outstanding affected thereby, on behalf of the Holders of the Debentures of such series, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture with respect to such series, and its consequences, except a default in the payment of the principal of or premium, if any, or interest on any of the Debentures of such series. Any such consent or waiver by the registered Holder of this Debenture (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future Holders and owners of this Debenture and of any Debenture issued in exchange herefor or in place hereof (whether by registration of transfer or

otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Debenture.

No reference herein to the Indenture and no provision of this Debenture or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Debenture at the time and place and at the rate and in the money herein prescribed.

The Company shall have the right at any time during the term of the Debentures, from time to time to extend the interest payment period of such Debentures for up to 20 consecutive quarters (the "Extended Interest Payment Period"), at the end of which period the Company shall pay all interest then accrued and unpaid (together with interest thereon compounded quarterly at the rate specified for the Debentures to the extent that payment of such interest is enforceable under applicable law); provided that, during such Extended Interest Payment Period the Company shall not declare or pay any dividend on, or purchase, acquire or make a liquidation payment with respect to, any of its capital stock, or make any guarantee payments with respect thereto. Prior to the termination of any such Extended Interest Payment Period, the Company may further extend such Extended Interest Payment Period, provided that such Period together with all such previous and further extensions thereof shall not exceed 20 consecutive quarters or extend beyond the maturity of the Debentures. At the termination of any such Extended Interest Payment Period and upon the payment of all accrued and unpaid interest and any additional amounts then due, the Company may select a new Extended Interest Payment Period.

As provided in the Indenture and subject to certain limitations therein set forth, this Debenture is transferable by the registered holder hereof on the Debenture Register of the Company, upon surrender of this Debenture for registration of transfer at the office or agency of the Company accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Trustee duly executed by the registered Holder hereof or his or her attorney duly authorized in writing, and thereupon one or more new Debentures of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees. No service charge will be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Debenture, the Company, the Trustee, any paying agent and any Debenture Registrar may deem and treat the registered Holder hereof as the absolute owner hereof (whether or not this Debenture shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Debenture Registrar) for the

purpose of receiving payment of or on account of the principal hereof and premium, if any, and interest due hereon and for all other purposes, and neither the Company nor the Trustee nor any paying agent nor any Debenture Registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or the interest on this Debenture, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

[The Debentures of this series are issuable only in registered form without coupons in denominations of \$25 and any integral multiple thereof.] [This Global Debenture is exchangeable for Debentures in definitive form only under certain limited circumstances set forth in the Indenture. Debentures of this series so issued are issuable only in registered form without coupons in denominations of \$25 and any integral multiple thereof.] As provided in the Indenture and subject to certain limitations [herein and] therein set forth, Debentures of this series [so issued] are exchangeable for a like aggregate principal amount of Debentures of this series of a different authorized denomination, as requested by the Holder surrendering the same.

All terms used in this Debenture which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE)

(PLEASE PRINT OR TYPE NAME AND ADDRESS, INCLUDING ZIP CODE, OF
ASSIGNEE) the within Debenture and all rights thereunder, hereby
irrevocably constituting and appointing such person attorney to
transfer such Debenture on the books of the Issuer, with full
power of substitution in the premises.

Dated: _____

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the within Debenture in every particular, without alteration or enlargement or any change whatever and NOTICE: Signature(s) must be guaranteed by a financial institution that is a member of the Securities Transfer Agents Medallion Program ("STAMP"), the Stock Exchange Medallion Program ("SEMP") or the New York Stock Exchange, Inc. Medallion Signature Program ("MSP").

June 27, 2000

Company Order and Officers' Certificate
Floating Rate Notes, Series A, due 2001

The Bank of New York, as Trustee
101 Barclay Street
New York, New York 10286
Attention: Corporate Trust Administration

Ladies and Gentlemen:

Pursuant to Article Two of the Indenture, dated as of January 1, 1998 (as it may be amended or supplemented, the "Indenture"); from Appalachian Power Company (the "Company") to The Bank of New York, as trustee (the "Trustee"), and the Board Resolutions dated January 26, 2000, a copy of which certified by the Secretary or an Assistant Secretary of the Company is being delivered herewith under Section 2.01 of the Indenture, and unless otherwise provided in a subsequent Company Order pursuant to Section 2.04 of the Indenture,

1. The Company's Floating Rate Notes, Series A, due 2001 (the "Notes") are hereby established. The Notes shall be in substantially the form attached hereto as Exhibit 1.

2. The terms and characteristics of the Notes shall be as follows (the numbered clauses set forth below correspond to the numbered subsections of Section 2.01 of the Indenture, with terms used and not defined herein having the meanings specified in the Indenture or in the Notes):

(i) the aggregate principal amount of Notes which may be authenticated and delivered under the Indenture shall be limited to \$75,000,000, except as contemplated in Section 2.01(i) of the Indenture;

(ii) the date on which the principal of the Notes shall be payable shall be June 27, 2001 ("Stated Maturity");

(iii) interest on the Notes shall be payable on March 27, June 27, September 27 and December 27 of each year (each, an "Interest Payment Date"), commencing on September 27, 2000 and shall accrue from and including the date of authentication of the Notes to, but excluding September 27, 2000, and thereafter, from and including each Interest Payment Date to, but excluding, the next succeeding Interest Payment Date or Stated Maturity, as the case may be; the Regular Record Date for the determination of holders to whom interest is payable on any such Interest Payment Date shall be the fifteenth calendar day preceding the relevant Interest Payment Date; provided that interest payable on Stated Maturity shall be paid to the Person to whom principal shall be paid;

(iv) the Notes will bear interest at a per annum rate ("Interest Rate") determined by the Calculation Agent, subject to the maximum interest rate permitted by New York or other applicable state law, as such law may be modified by United States law of general application. The Interest Rate for each Interest Period will be equal to LIBOR on the Interest Determination Date for such Interest Period plus .50%; provided, however, that in certain circumstances described below, the Interest Rate will be determined without reference to LIBOR.

If the following circumstances exist on any Interest Determination Date, the Calculation Agent shall determine the Interest Rate for the Notes as follows:

(1) In the event no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m. London time on an Interest Determination Date, the Calculation Agent shall request the principal London offices of each of four major banks in the London interbank market selected by the Calculation Agent (after consultation with the Company) to provide a quotation of the rate (the "Rate Quotation") at which three month deposits in amounts of not less than \$1,000,000 are offered by it to prime banks in the London interbank market, as of approximately 11:00 a.m. on such Interest Determination Date, that is representative of single transactions at such time (the "Representative Amounts"). If at least two Rate Quotations are provided, the interest rate will be the arithmetic mean of the Rate Quotations obtained by the Calculation Agent, plus .50%.

(2) In the event no Reported Rate appears on Telerate Page 3750 as of approximately 11:00 a.m. London time on an Interest Determination Date and there are fewer than two Rate Quotations, the interest rate will be the arithmetic mean of the rates quoted at approximately 11:00 a.m. New York City time on such Interest Determination Date, by three major banks in New

York City selected by the Calculation Agent (after consultation with the Company), for loans in Representative Amounts in U. S. dollars to leading European banks, having an index maturity of three months for a period commencing on the second London Business Day immediately following such Interest Determination Date, plus .50%; provided, however, that if fewer than three banks selected by the Calculation Agent are quoting such rates, the interest rate for the applicable Interest Period will be the same as the interest rate in effect for the immediately preceding Interest Period.

- (v) the Notes shall not be redeemable prior to maturity;
- (vi)(a) the Notes shall be issued in the form of a Global Note; (b) the Depositary for such Global Note shall be The Depositary Trust Company; and (c) the procedures with respect to transfer and exchange of Global Notes shall be as set forth in the form of Note attached hereto;
- (vii) the title of the Notes shall be "Floating Rate Notes, Series A, due 2001";
- (viii) the form of the Notes shall be as set forth in Paragraph 1, above;
- (ix) see item (iv) above;
- (x) the Notes shall not be subject to a Periodic Offering;
- (xi) not applicable;
- (xii) not applicable;
- (xiii) not applicable;
- (xiv) the Notes shall be issuable in denominations of \$1,000 and any integral multiple thereof;
- (xv) not applicable;
- (xvi) the Notes shall not be issued as Discount Securities;
- (xvii) not applicable;
- (xviii) see item (iv) above; and

(xix) not applicable.

3. You are hereby requested to authenticate \$75,000,000 aggregate principal amount of Floating Rate Notes, Series A, due 2001, executed by the Company and delivered to you concurrently with this Company Order and Officers' Certificate, in the manner provided by the Indenture.

4. You are hereby requested to hold the Notes as custodian for DTC in accordance with the Letter of Representations dated June 21, 2000, from the Company and the Trustee to DTC.

5. Concurrently with this Company Order and Officers' Certificate, an Opinion of Counsel under Sections 2.04 and 13.06 of the Indenture is being delivered to you.

6. The undersigned A. A. Pena and Thomas G. Berkemeyer, the Treasurer and Assistant Secretary, respectively, of the Company do hereby certify that:

(i) we have read the relevant portions of the Indenture, including without limitation the conditions precedent provided for therein relating to the action proposed to be taken by the Trustee as requested in this Company Order and Officers' Certificate, and the definitions in the Indenture relating thereto;

(ii) we have read the Board Resolutions of the Company and the Opinion of Counsel referred to above;

(iii) we have conferred with other officers of the Company, have examined such records of the Company and have made such other investigation as we deemed relevant for purposes of this certificate;

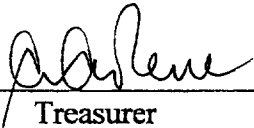
(iv) in our opinion, we have made such examination or investigation as is necessary to enable us to express an informed opinion as to whether or not such conditions have been complied with; and

(v) on the basis of the foregoing, we are of the opinion that all conditions precedent provided for in the Indenture relating to the action proposed to be taken by the Trustee as requested herein have been complied with.

Kindly acknowledge receipt of this Company Order and Officers' Certificate, including the documents listed herein, and confirm the arrangements set forth herein by signing and returning the copy of this document attached hereto.

Very truly yours,

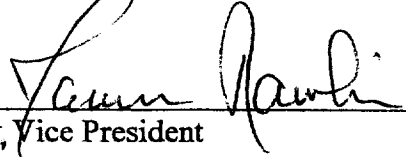
APPALACHIAN POWER COMPANY

By: 
Treasurer

And: 
Assistant Secretary

Acknowledged by Trustee:

THE BANK OF NEW YORK

By: 
Asst. Vice President

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

EXHIBIT D

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2000	1999	2000	1999	2000	1999
	(in thousands)					
OPERATING REVENUES	\$430,000	\$373,766	\$ 885,595	\$ 801,468	\$1,735,064	\$1,655,266
OPERATING EXPENSES:						
Fuel	92,663	99,659	191,220	223,232	412,699	451,332
Purchased Power.	106,410	61,048	198,974	111,639	341,435	258,258
Other Operation.	61,566	60,162	122,207	122,911	248,912	260,320
Maintenance.	28,989	38,361	57,314	66,872	114,276	134,900
Depreciation and Amortization. . .	38,899	37,224	77,237	73,775	152,336	146,391
Taxes Other Than Federal						
Income Taxes.	28,817	30,066	59,462	60,041	117,062	115,933
Federal Income Taxes	14,448	4,147	42,727	28,292	85,360	55,324
TOTAL OPERATING EXPENSES .	371,792	330,667	749,141	686,762	1,472,080	1,422,458
OPERATING INCOME	58,208	43,099	136,454	114,706	262,984	232,808
NONOPERATING INCOME (LOSS)	3,427	315	4,208	(773)	13,077	(10,248)
INCOME BEFORE INTEREST CHARGES . . .	61,635	43,414	140,662	113,933	276,061	222,560
INTEREST CHARGES	31,395	32,378	62,758	63,636	127,962	127,256
INCOME BEFORE EXTRAORDINARY ITEM . .	30,240	11,036	77,904	50,297	148,099	95,304
EXTRAORDINARY GAIN - DISCONTINUANCE OF SFAS No. 71 (INCLUSIVE OF TAX BENEFIT OF \$7,872,000)	8,938	-	8,938	-	8,938	-
NET INCOME	39,178	11,036	86,842	50,297	157,037	95,304
PREFERRED STOCK DIVIDEND REQUIREMENTS.	632	673	1,265	1,348	2,623	2,698
EARNINGS APPLICABLE TO COMMON STOCK.	\$ 38,546	\$ 10,363	\$ 85,577	\$ 48,949	\$ 154,414	\$ 92,606

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2000	1999	2000	1999	2000	1999
	(in thousands)					
BALANCE AT BEGINNING OF PERIOD . . .	\$191,232	\$187,699	\$175,854	\$179,461	\$167,714	\$195,262
NET INCOME	39,178	11,036	86,842	50,297	157,037	95,304
DEDUCTIONS:						
Cash Dividends Declared:						
Common Stock	31,653	30,348	63,306	60,696	124,002	120,154
Cumulative Preferred Stock . . .	525	565	1,050	1,132	2,136	2,473
Capital Stock Expense.	106	108	214	216	487	225
BALANCE AT END OF PERIOD	\$198,126	\$167,714	\$198,126	\$167,714	\$198,126	\$167,714

The common stock of the Company is wholly owned by American Electric Power Company, Inc.

See Notes to Consolidated Financial Statements.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30,	
	2000	1999
	(in thousands)	
<u>ASSETS</u>		
ELECTRIC UTILITY PLANT:		
Production	\$2,040,224	\$2,006,859
Transmission	1,164,462	1,132,344
Distribution	1,778,715	1,675,056
General.	247,847	239,257
Construction Work in Progress.	84,986	107,941
Total Electric Utility Plant	5,316,234	5,161,457
Accumulated Depreciation and Amortization.	2,128,020	2,035,779
NET ELECTRIC UTILITY PLANT	3,188,214	3,125,678
OTHER PROPERTY AND INVESTMENTS	299,777	140,694
CURRENT ASSETS:		
Cash and Cash Equivalents.	2,023	30,081
Advances to Affiliates	12,857	-
Accounts Receivable:		
Customers.	135,110	112,483
Affiliated Companies	47,252	24,797
Miscellaneous.	10,728	11,508
Allowance for Uncollectible Accounts	(2,205)	(2,883)
Fuel	49,356	64,175
Materials and Supplies	57,134	63,726
Accrued Utility Revenues	40,389	38,719
Energy Trading Contracts	986,681	190,857
Prepayments.	7,554	7,194
TOTAL CURRENT ASSETS	1,346,879	540,657
REGULATORY ASSETS.	448,905	421,647
DEFERRED CHARGES	29,973	38,256
TOTAL.	\$5,313,748	\$4,266,932

See Notes to Consolidated Financial Statements.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30,	
	<u>2000</u>	<u>1999</u>
	(in thousands)	
<u>CAPITALIZATION AND LIABILITIES</u>		
CAPITALIZATION:		
Common Stock - No Par Value:		
Authorized - 30,000,000 Shares		
Outstanding - 13,499,500 Shares.	\$ 260,458	\$ 260,458
Paid-in Capital.	717,464	663,889
Retained Earnings.	198,126	167,714
Total Common Shareholder's Equity.	<u>1,176,048</u>	<u>1,092,061</u>
Cumulative Preferred Stock:		
Not Subject to Mandatory Redemption.	18,188	19,116
Subject to Mandatory Redemption.	11,860	22,310
Long-term Debt	<u>1,435,207</u>	<u>1,449,232</u>
TOTAL CAPITALIZATION	<u>2,641,303</u>	<u>2,582,719</u>
OTHER NONCURRENT LIABILITIES	<u>122,295</u>	<u>131,027</u>
CURRENT LIABILITIES:		
Preferred Stock Due Within One Year.	8,450	-
Long-term Debt Due Within One Year	175,005	176,005
Short-term Debt.	145,675	115,150
Accounts Payable - General	40,039	54,148
Accounts Payable - Affiliated Companies.	89,137	31,570
Taxes Accrued.	48,274	35,791
Customer Deposits.	12,769	13,257
Interest Accrued	18,176	20,017
Revenue Refunds Accrued.	-	22,237
Energy Trading Contracts	973,727	191,801
Other.	<u>63,408</u>	<u>81,663</u>
TOTAL CURRENT LIABILITIES.	<u>1,574,660</u>	<u>741,639</u>
DEFERRED INCOME TAXES.	<u>685,551</u>	<u>653,003</u>
DEFERRED INVESTMENT TAX CREDITS.	<u>45,676</u>	<u>59,887</u>
DEFERRED CREDITS	<u>244,263</u>	<u>98,657</u>
CONTINGENCIES (Note 5)		
TOTAL.	<u>\$5,313,748</u>	<u>\$4,266,932</u>

See Notes to Consolidated Financial Statements.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	<u>2000</u>	<u>1999</u>
	(in thousands)	
OPERATING ACTIVITIES:		
Net Income	\$ 86,842	\$ 50,297
Adjustments for Noncash Items:		
Depreciation and Amortization.	77,293	74,302
Deferred Federal Income Taxes.	15,054	13,895
Deferred Investment Tax Credits.	(2,332)	(2,344)
Deferred Power Supply Costs (net).	(11,938)	23,208
Extraordinary Gain - Discontinuance of SFAS No. 71	(8,938)	-
Changes in Certain Current Assets and Liabilities:		
Accounts Receivable (net).	(36,988)	18,981
Fuel, Materials and Supplies	8,588	(17,635)
Accrued Utility Revenues	13,029	7,266
Accounts Payable	27,567	(25,164)
Revenue Refunds Accrued.	(3,321)	(73,030)
Unrealized Gain on Trading Assets and Liabilities.	(19,438)	(6,047)
Other (net).	(15,855)	(3,081)
Net Cash Flows From Operating Activities	<u>129,563</u>	<u>60,648</u>
INVESTING ACTIVITIES:		
Construction Expenditures.	(80,870)	(86,808)
Proceeds from Sale of Property	148	200
Net Cash Flows Used For Investing Activities	<u>(80,722)</u>	<u>(86,608)</u>
FINANCING ACTIVITIES:		
Issuance of Long-term Debt	74,787	148,751
Change in Short-term Debt (net).	22,195	38,750
Change in Advances to Affiliates (net)	(12,857)	-
Retirement of Cumulative Preferred Stock	(210)	(149)
Retirement of Long-term Debt	(77,236)	(77,236)
Dividends Paid on Common Stock	(60,696)	(60,696)
Dividends Paid on Cumulative Preferred Stock	(1,134)	(1,134)
Net Cash Flows From (Used For) Financing Activities.	<u>(111,646)</u>	<u>48,286</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(62,805)	22,326
Cash and Cash Equivalents at Beginning of Period	64,828	7,755
Cash and Cash Equivalents at End of Period	<u>\$ 1,023</u>	<u>\$ 30,081</u>

Supplemental Disclosure:

Cash paid for interest net of capitalized amounts was \$61,828,000 and \$61,693,000 and for income taxes was \$21,198,000 and \$18,062,000 in 2000 and 1999, respectively. Noncash acquisitions under capital leases were \$7,451,000 and \$8,845,000 in 2000 and 1999, respectively.

See Notes to Consolidated Financial Statements.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2000

(UNAUDITED)

1. GENERAL

The accompanying unaudited consolidated financial statements should be read in conjunction with the 1999 Annual Report as incorporated in and filed with the Form 10-K. Certain prior-period amounts have been reclassified to conform to current-period presentation. In the opinion of management, the financial statements reflect all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the results of operations for interim periods.

2. FINANCING ACTIVITIES

In May 2000 the Company issued \$75 million of floating rate senior unsecured notes due 2001. During the first six months of 2000, the Company reacquired the following first mortgage bonds for \$101 million.

<u>% Rate</u>	<u>Due Date</u>	Principal Amount <u>Reacquired</u> (in thousands)
6.35	March 1, 2000	\$48,000
6.71	June 1, 2000	48,000
7.125	May 1, 2024	5,000

In January 2000 the Company redeemed \$30 million of pollution control revenue bonds early with a due date of 2014. The Company has in the past, and may in the future, acquire outstanding debt and preferred stock securities in open market transactions.

3. RATE MATTERS

As discussed in Note 4 of the Notes to Consolidated Financial Statements of the 1999 Annual Report, the AEP System companies filed a settlement agreement with the Federal Energy Regulatory Commission (FERC) for their approval to establish an open access transmission tariff. The Company made a provision in 1999 for a refund including interest for amounts paid in excess of the agreed to rate.

On March 16, 2000, the FERC approved the settlement agreement filed in December 1999 resolving the issues on rehearing raised in a July 30, 1999 order. Under terms of the settlement, AEP is required to make refunds retroactive to September 7, 1993 to certain customers affected by the July 30, 1999 FERC order. Pursuant to FERC orders the refunds were made in two payments. The first payment was made in February 2000 and the second payment was made on August 1, 2000. In addition, a new lower rate of \$1.55 kw/month was made effective January 1, 2000, for all transmission service customers and a rate of \$1.42 kw/month was established and took effect on June 16, 2000 in connection with the consummation of the AEP and Central and South West Corporation merger. Prior to January 1, 2000, the rate was \$2.04 kw/month. Unless the Company and the market grow the volume of physical power transactions to

increase the utilization of the AEP System's transmission lines, the new open access transmission rate will adversely impact future results of operations and cash flows.

West Virginia

As discussed in Note 4 of the Notes to Consolidated Financial Statements of the 1999 Annual Report, the Company has been involved in a rate proceeding regarding base and expanded net energy cost (ENEC) rates. On February 7, 2000, the Company and other parties to the proceeding filed a Joint Stipulation and Agreement for Settlement (Joint Stipulation) with the Public Service Commission of West Virginia (WVPSC) for approval.

The Joint Stipulation's main provisions include no change in either base or ENEC rates effective January 1, 2000 from those base and ENEC rates in effect from November 1, 1996 until December 31, 1999 (these rates provide for recovery of regulatory assets including any generation related regulatory assets through frozen transition rates and a wires charge of 0.5 mills per kwh provided for in the WV Restructuring Plan, see Note 4); the suspension of annual ENEC recovery proceedings and deferral accounting for over or under recovery effective January 1, 2000; and the retention, as a regulatory liability, on the books of the net cumulative deferred ENEC recovery balance of \$66 million. The Joint Stipulation provides that when deregulation of generation occurs in West Virginia (WV), the Company will use this retained regulatory liability to reduce generation-related regulatory assets and, to the extent possible, any additional costs or obligations that deregulation may impose.

Also under the Joint Stipulation the Company's share of any net savings from the merger between the Company and Central and South West Corporation prior to December 31, 2004 shall be retained by the Company. All costs incurred in the merger that were allocated to the Company shall be fully charged to expense as of December 31, 2004 and shall not be included in any WV rate proceeding after that date. After December 31, 2004, any distribution savings related to the merger will be reflected in rates in any future rate proceeding before the WVPSC to establish distribution rates or to adjust rate caps during the transition to market based rates. When deregulation of generation occurs in WV, the net retained generation related merger savings shall be used to recover any generation related regulatory assets that are not recovered under the other provisions of the Joint Stipulation and the mechanisms provided in the deregulation legislation and, to the extent possible, to recover any additional costs or obligations that deregulation may impose. Regardless of whether the net cumulative deferred ENEC recovery balance and the net merger savings are sufficient to offset all of the Company's generation-related regulatory assets, under the terms of the Joint Stipulation there will be no further explicit adjustment to the Company's rates to provide for recovery of generation-related regulatory assets beyond the above discussed specific adjustments provided in the Joint Stipulation and the 0.5 mills per kilowatthour (kwh) wires charge provided in the WV Restructuring Plan (see Note 4 for discussion of WV Restructuring Plan). On June 2, 2000, the WVPSC issued an order approving the Joint Stipulation.

4. INDUSTRY RESTRUCTURING

Restructuring legislation has been enacted in both of the Company's retail jurisdictions that results in the transition from cost-based regulation for generation to customer choice market pricing for the supply of electricity. The enactment of restructuring legislation and the ability to determine transition rates and wires charges under restructuring legislation resulted in the discontinuance of the application of Statement of Financial Accounting Standards (SFAS) 71, "Accounting for the Effects of Certain Types of Regulation." Prior to restructuring, the Company accounted for its operations according to the cost-based regulatory accounting principles of SFAS 71. Under the provisions of SFAS 71, regulatory assets and regulatory liabilities are recorded to reflect the economic effects of regulation and to match expenses with regulated revenues. The discontinuance of the application of SFAS 71 is based on SFAS 101 "Accounting for the Discontinuance of Application of Statement 71". Pursuant to those requirements and further guidance provided in the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) Issue 97-4, a company is required to write-off regulatory assets and liabilities related to its deregulated operations, unless recovery of such amounts is provided through rates to be collected in a portion of the company's operations which continues to be cost-based rate regulated. Additionally, a company experiencing a discontinuance of cost-based rate regulation is required to determine if any plant assets are impaired under SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of."

A SFAS 121 accounting impairment analysis involves estimating future non-discounted net cash flows arising from the use of an asset. If the undiscounted net cash flows exceed the net book value of the asset, then there is no impairment of the asset for accounting purposes.

As legislative and regulatory proceedings evolve, the Company is applying the standards discussed above. Following is a summary of restructuring legislation, the status of the transition and the status of the Company's accounting to comply with the changes.

Virginia Restructuring

Under a 1999 Virginia restructuring law a transition to choice of supplier for retail customers will commence on January 1, 2002 and be completed, subject to a finding by the Virginia State Corporation Commission (Virginia SCC) that an effective competitive market exists by January 1, 2004 but not later than January 1, 2005.

The Virginia restructuring law provides an opportunity for recovery of just and reasonable net stranded generation-related costs. The mechanisms in the Virginia law for stranded cost recovery are: a capping of incumbent utility transition rates until as late as July 1, 2007, and the application of a wires charge upon customers who may depart the incumbent utility in favor of an alternative supplier prior to the termination of the rate cap. The law provides for the establishment of capped rates prior to January 1, 2001 and establishment of a wires charge by the fourth quarter of 2001. Since the Company does not intend to request new rates, its current rates will become the capped rates.

West Virginia Restructuring Plan

As discussed in Note 3 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, the WVPSC issued an order on January 28, 2000 approving an electricity restructuring plan. On March 11, 2000, the West Virginia legislature approved the restructuring plan by joint resolution. The joint resolution provides that the WVPSC cannot implement the plan until the legislature makes necessary tax law changes to preserve the revenues of the state and local governments.

The provisions of the restructuring plan provide for customer choice to begin on January 1, 2001, or at a later date set by the WVPSC after all necessary rules are in place (the "starting date"); deregulation of generation assets occurring on the starting date; functional separation of the generation, transmission and distribution businesses on the starting date and their legal corporate or structural separation no later than January 1, 2005; a transition period of up to 13 years, during which the incumbent utility must provide default service for customers who do not change suppliers unless an alternative default supplier is selected through a WVPSC-sponsored bidding process; capped and fixed rates for the 13-year transition period as discussed below; deregulation of metering and billing; a 0.5 mills per kwh wires charge applicable to all retail customers for the period January 1, 2001 through December 31, 2010 intended to provide for recovery of any stranded costs including net regulatory assets; and establishment by the Company of a rate stabilization deferral balance of \$76 million by the end of year ten of the transition period to be used as determined by the WVPSC to offset market prices paid for electricity in the eleventh, twelfth, and thirteenth year of the transition period by residential and small commercial customers that do not choose an alternative supplier.

Default rates for residential and small commercial customers are capped for four years after the starting date and then increase as specified in the plan for the next six years. In years eleven, twelve and thirteen of the transition period, the power supply rate shall equal the market price of comparable power. Default rates for industrial and large commercial customers are discounted by 1% for four and a half years, beginning July 1, 2000, and then increased at pre-defined levels for the next three years. After seven years the power supply rate for industrial and large commercial customers will be market based. The Company's Joint Stipulation agreement, discussed in Note 3 above, which was approved by the WVPSC on June 2, 2000 in connection with a base rate filing, also provides additional mechanisms to recover the Company's regulatory assets.

Application of SFAS 71 Discontinued

In June 2000 the Company discontinued the application of SFAS 71 for the Virginia and West Virginia retail jurisdictional portions of its generation business since generation is no longer considered to be cost-based regulated in those jurisdictions and the Company was able to determine its transition rates and wires charges. The discontinuance in the West Virginia jurisdiction was possible as a result of a June 2, 2000 approval of the Joint

Stipulation which established rates, wires charges and regulatory asset recovery procedures during the transition period to market rates (See discussion in Note 3). The Company was also able to discontinue application of SFAS 71 for the generation portion of its Virginia retail jurisdiction after management decided that it would not request capped rates different from its current rates. The existence of effective restructuring legislation in Virginia and the probability that the West Virginia legislation would become effective with the passage of the required tax legislation in 2001 supported management's decision to discontinue SFAS 71 regulatory accounting.

The discontinuance of SFAS 71 for generation resulted in an extraordinary gain of \$9 million because management believes that all net regulatory assets related to the Virginia and West Virginia generating business will be recovered. Under the provisions of EITF 97-4, the Company's generation-related net regulatory assets were transferred to the transmission and distribution portion of the business and will be amortized as they are recovered through charges to customers. An accounting impairment analysis of generation assets under SFAS 121 was performed which concluded there was no impairment of generation assets.

5. CONTINGENCIES

Litigation

As discussed in Note 5 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, the deductibility of certain interest deductions related to AEP's corporate owned life insurance (COLI) program for taxable years 1991 through 1996 is under review by the Internal Revenue Service (IRS). Adjustments have been or will be proposed by the IRS disallowing COLI interest deductions. A disallowance of the COLI interest deductions through June 30, 2000 would reduce earnings by approximately \$79 million (including interest).

The Company made payments of taxes and interest attributable to COLI interest deductions for taxable years 1991 through 1998 to avoid the potential assessment by the IRS of any additional above market rate interest on the contested amount. The payments to the IRS are included on the consolidated balance sheet in other property and investments pending the resolution of this matter. The Company is seeking refund through litigation of all amounts paid plus interest.

In order to resolve this issue, the Company filed suit against the United States in the U.S. District Court for the Southern District of Ohio in 1998. In 1999 a U.S. Tax Court judge decided in the Winn-Dixie Stores v. Commissioner case that a corporate taxpayer's COLI interest deduction should be disallowed. Notwithstanding the Tax Court's decision in Winn-Dixie, management has made no provision for any possible adverse earnings impact from this matter because it believes, and has been advised by outside counsel, that it has a meritorious position and will vigorously pursue its lawsuit. In the event the resolution of this matter is unfavorable, it will have a material adverse impact on results of operations, cash flows and possibly financial condition.

Federal EPA Complaint and Notice of Violation

As discussed in Note 5 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, the Company has been involved in litigation regarding generating plant emissions. Notices of Violation were issued and a complaint was filed by the U.S. Environmental Protection Agency (Federal EPA) in the U.S. District Court that alleges the Company, certain affiliates and eleven unaffiliated utilities made modifications to generating units at certain of their coal-fired generating plants over the course of the past 25 years that extend unit operating lives or increase unit generating capacity without a preconstruction permit in violation of the Clean Air Act. The complaint was amended in March 2000 to add allegations for certain generating units previously named in the complaint and to include additional AEP System generating units previously named only in the Notices of Violation in the complaint. Under the Clean Air Act, if a plant undertakes a major modification that directly results in an emissions increase, permitting requirements might be triggered and the plant may be required to install additional pollution control technology. This requirement does not apply to activities such as routine maintenance, replacement of degraded equipment or failed components or other repairs needed for the reliable, safe and efficient operation of the plant.

A number of northeastern and eastern states were granted leave to intervene in the Federal EPA's action against the Company under the Clean Air Act. A lawsuit against power plants owned by the Company alleging similar violations to those in the Federal EPA complaint and Notices of Violation was filed by a number of special interest groups and has been consolidated with the Federal EPA action.

The Clean Air Act authorizes civil penalties of up to \$27,500 per day per violation at each generating unit (\$25,000 per day prior to January 30, 1997). Civil penalties, if ultimately imposed by the court, and the cost of any required new pollution control equipment, if the court accepts Federal EPA's contentions, could be substantial.

On May 10, 2000, the Company filed motions to dismiss all or portions of the complaints. Briefing on these motions was completed on August 2, 2000. Management believes its maintenance, repair and replacement activities were in conformity with the Clean Air Act and intends to vigorously pursue its defense of this matter.

In the event the Company does not prevail, any capital and operating costs of additional pollution control equipment that may be required as well as any penalties imposed would adversely affect future results of operations, cash flows and possibly financial condition unless such costs can be recovered through regulated rates, stranded cost wires charges and future market prices for energy.

NOx Reductions

As discussed in Note 6 of the Notes to Consolidated Financial Statements in the 1999 Annual Report, Federal EPA had issued a final rule (the NOx rule) that requires substantial reductions in nitrogen oxide (NOx) emissions in 22 eastern states, including certain states in which the AEP System's generating plants are located. A number of utilities, including certain AEP System companies, had filed petitions seeking a review of the final rule in the U.S. Court of Appeals for the District of Columbia Circuit (Appeals Court). In May 1999, the Appeals Court indefinitely stayed the requirement that states develop revised air quality programs to impose the NOx reductions but did not, however, stay the final compliance date of May 1, 2003. In March 2000 the Appeals Court issued a decision generally upholding the NOx rule. On April 20, 2000, certain AEP System companies and other petitioners filed for rehearing of this decision including a rehearing by the entire Appeals Court. On June 22, 2000, the Appeals Court denied the petition for rehearing and lifted the stay related to the states' development of revised air quality programs to impose the NOx reductions. The petition for a rehearing before the entire Appeals Court was also denied. The AEP System companies subject to the NOx rule plan to appeal to the U.S. Supreme Court.

Preliminary estimates indicate that compliance with NOx rule upheld by the Appeals Court could result in required capital expenditures of approximately \$365 million for the Company. Since compliance costs cannot be estimated with certainty, the actual costs to comply could be significantly different than the Company's preliminary estimate depending upon the compliance alternatives selected to achieve reductions in NOx emissions. Unless such costs are recovered from customers through regulated rates, wires charges or future market price of electricity, they will have a material adverse effect on future results of operations, cash flows and possibly financial condition.

Other

The Company continues to be involved in certain other matters discussed in its 1999 Annual Report.

APPALACHIAN POWER COMPANY AND SUBSIDIARIES
OPERATING REVENUES AND ENERGY SALES

	Three Months Ended		Six Months Ended		Twelve Months Ended	
	June 30,		June 30,		June 30,	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
OPERATING REVENUES (in thousands):						
Retail:						
Residential:						
Without Electric Heating. . .	\$ 54,181	\$ 53,091	\$110,959	\$110,171	\$ 232,910	\$ 230,478
With Electric Heating	<u>70,635</u>	<u>67,977</u>	<u>184,138</u>	<u>183,016</u>	<u>347,162</u>	<u>337,888</u>
Total Residential	124,816	121,068	295,097	293,187	580,072	568,366
Commercial.	75,285	72,202	150,423	146,204	305,544	290,637
Industrial.	91,607	93,321	180,017	187,529	369,861	380,102
Miscellaneous	<u>9,299</u>	<u>8,533</u>	<u>18,608</u>	<u>17,654</u>	<u>36,332</u>	<u>35,041</u>
Total Retail.	301,007	295,124	644,145	644,574	1,291,809	1,274,146
Wholesale (sales for resale). . .	<u>115,125</u>	<u>63,411</u>	<u>201,573</u>	<u>117,748</u>	<u>353,193</u>	<u>299,898</u>
Total Revenues from						
Energy Sales.	416,132	358,535	845,718	762,322	1,645,002	1,574,044
Provision for Refunds of Revenues						
Collected in Prior Periods. . .	-	(1,117)	-	8,687	-	8,687
Total Net of Provision						
for Refunds	416,132	357,418	845,718	771,009	1,645,002	1,582,731
Other	<u>13,868</u>	<u>16,348</u>	<u>39,877</u>	<u>30,459</u>	<u>90,062</u>	<u>72,535</u>
TOTAL OPERATING REVENUES. .	<u>\$430,000</u>	<u>\$373,766</u>	<u>\$885,595</u>	<u>\$801,468</u>	<u>\$1,735,064</u>	<u>\$1,655,266</u>
ENERGY SALES (in millions of kilowatthours):						
Retail:						
Residential:						
Without Electric Heating. . .	910	869	1,897	1,855	3,994	3,941
With Electric Heating	<u>1,272</u>	<u>1,191</u>	<u>3,509</u>	<u>3,447</u>	<u>6,505</u>	<u>6,329</u>
Total Residential	2,182	2,060	5,406	5,302	10,499	10,270
Commercial.	1,539	1,433	3,075	2,920	6,248	5,931
Industrial.	2,667	2,618	5,237	5,244	10,738	10,727
Miscellaneous	<u>178</u>	<u>169</u>	<u>361</u>	<u>350</u>	<u>712</u>	<u>691</u>
Total Retail.	6,566	6,280	14,079	13,816	28,197	27,619
Wholesale (sales for resale). . .	<u>3,943</u>	<u>2,374</u>	<u>7,821</u>	<u>4,621</u>	<u>13,004</u>	<u>9,712</u>
TOTAL ENERGY SALES.	<u>10,509</u>	<u>8,654</u>	<u>21,900</u>	<u>18,437</u>	<u>41,201</u>	<u>37,331</u>